

**Absolute Advantage** - one person or country can produce more than another in a specific time period; measured in terms of inputs and outputs.

**Allocation** - the way society deals with scarcity; prices, government regulation, rationing

**Command economy** - economic system characterized by a central authority that makes most/all of the major economic decisions

**Comparative Advantage** - one person or country has a lower opportunity cost in the production of one good or service over another good or service.

**Competition** - the struggle among sellers/producers to attract consumers while lowering costs

**Consumer** - Those who obtain and use goods and services produced by others.

**Consumer sovereignty** - role of consumer as ruler of the market when determining the types of goods and services produced

**Decision Making** - choosing between two or more economic options

**Deregulation** - removal of government restrictions on actions in the economy

**Efficiency** - means that resources are used in ways that provide the most value; implies that no one can be made better off without someone becoming worse off

**Entrepreneur** - person or individual who organizes the resources for production and distribution, entrepreneurs take risks

**Externality** - economic side effect that affects an uninvolved third party; dealt with regulations, incentives, voluntary solutions

**Factors of Production (Productive Resources)** - land, labor, capital, and entrepreneurship

**Financial capital** - money from savings and investments that finance businesses

**Free enterprise** - economy in which competition is allowed to flourish with a minimum of government interference; used to describe American economy

**Government regulation** - choices are restricted or dictated by government action

**Human capital** - sum of peoples' skills, abilities, health and motivation

**Incentives** - positive and negative rewards that encourage economic behavior such as making purchases or working to increase productivity

**Inputs** - resources used to produce goods and services

**Investment** - spending now in order to increase output or productivity later; includes spending on capital (physical and human), new housing, and changes in business inventories

**Labor** - efforts and abilities of humans used to produce goods and services, mental and physical

**Land** - the earth and all of the resources coming from the land, water and air

**Marginal benefits and costs** - what consumers and producers evaluate in making economic decisions; benefits should be greater than costs

**Marginal utility** - the satisfaction and usefulness of adding one unit in production or one more item in consumption

**Market economy** - economic system in which supply, demand, and the price system help people make decisions and allocate resources; same as free enterprise economy

**Market failure** - market where any of the requirements for a (pure/perfect) competitive market - adequate competition, knowledge of prices, and opportunities, mobility of resources and competitive profits - are lacking

**Mixed economy** - free enterprise market economy where people carry on their economic affairs freely, but are subject to some government intervention and regulation; also modified free or private enterprise economy

**Needs** - items that people must have to live; food, water, shelter, basic clothing

**Opportunity Cost** - the item or value that is lost when someone makes an economic decision; the next best alternative; the item that is not chosen

**Outputs** - goods and services produced

**Non-fraudulent exchange** - occurs when an exchange or trade occurs and one side is not trying to cheat the other

**Physical capital** - tools, equipment, and facilities involved in creating goods and services and getting them to the consumers

**Private property/ownership** - individuals own & control their possessions as they wish; includes tangible & intangible

**Product (Producer, Production)** - an economic good that can be used to satisfy needs and wants

**Production Possibilities Curve** - diagram representing maximum combinations of goods and/or services an economy can produce when all productive resources are fully employed; can be applied to firms and comparative & absolute advantage

**Productivity** - defined as the relationship between inputs (productive resources) to outputs (goods & services)

**Profit motive** - driving force that encourages people and organizations to improve their material well-being; characteristic of capitalism and free enterprise

**Public good/service** - economic product or service that is consumed collectively - highways, national defense, police, fire

**Rational decision** - when marginal benefits exceed marginal costs; often subjective

**Resources** - items available to produce goods and services to satisfy human wants and needs.

**Scarcity** - condition that exists when unlimited human wants and needs exceed limited productive resources.

**Service** - work performed to satisfy needs and wants, example, haircut

**Specialization** - individuals do specific tasks in the production of goods and services, ex. Heart specialist

**Standard of Living** - the quality of life based on the possession of necessities & luxuries that make life easier

**Technology** - possible techniques of production; equipment, software, ideas

**Trade Offs** - action of giving up one item or category for another; example, "guns vs butter"

**Voluntary Exchange** - consumers and producers decide which goods and services to exchange and set the prices

**Wants** - goods and services that people would like to obtain